

## MEMORANDUM

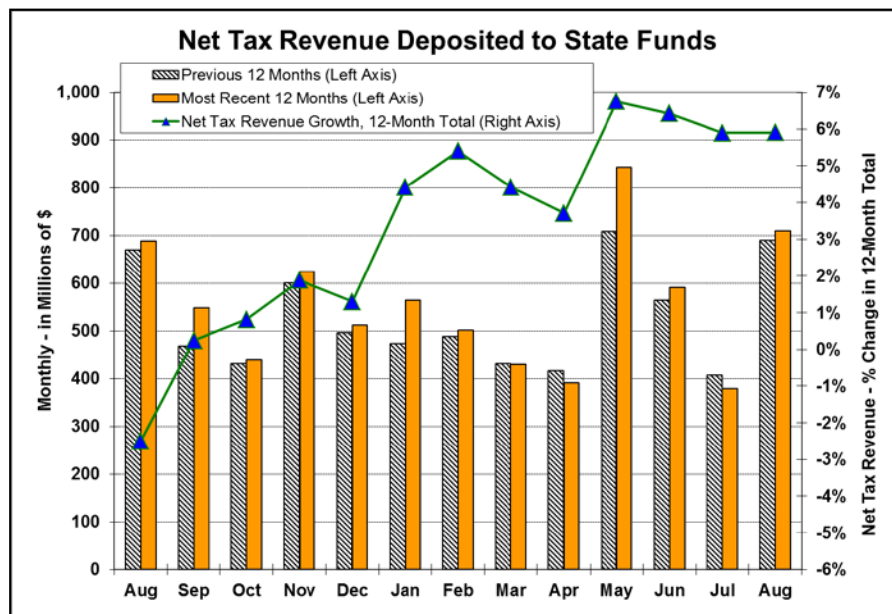
TO: Members of the Iowa Senate and  
Members of the Iowa House of Representatives

FROM: Jeff Robinson  
Shawn Snyder

DATE: September 21, 2011

### Twelve-month Total Net Tax Receipts Through August 31, 2011

The attached spreadsheet presents net tax revenue deposited to State funds for the 12-month period ending August 2011 with comparisons to the previous twelve months. August 2010 to August 2011 one-month comparisons are also presented. The source of the information is the State accounting system, including non-General Fund accounts. All accounting transactions related to taxes remitted to the State were reviewed, along with the refunds issued against those taxes.



### Overview of Current Situation

August 2011 net State tax revenue was 3.1% higher than August 2010. There were several deposit timing issues that shifted tax revenue between July and August this year. Analyzed together, revenue growth was slightly negative for the two month period. At \$6.534 billion, annual revenue is up a significant 5.9% compared to the previous 12 months, but annual revenue remains well below the pre-recession peak level of \$6.760 billion (September 2008).

## Month of August Comparison

August net tax receipts totaled \$709.7 million, an increase of \$21.1 million (3.1%) compared to August 2010. Major taxes and their contribution to the month's change include:

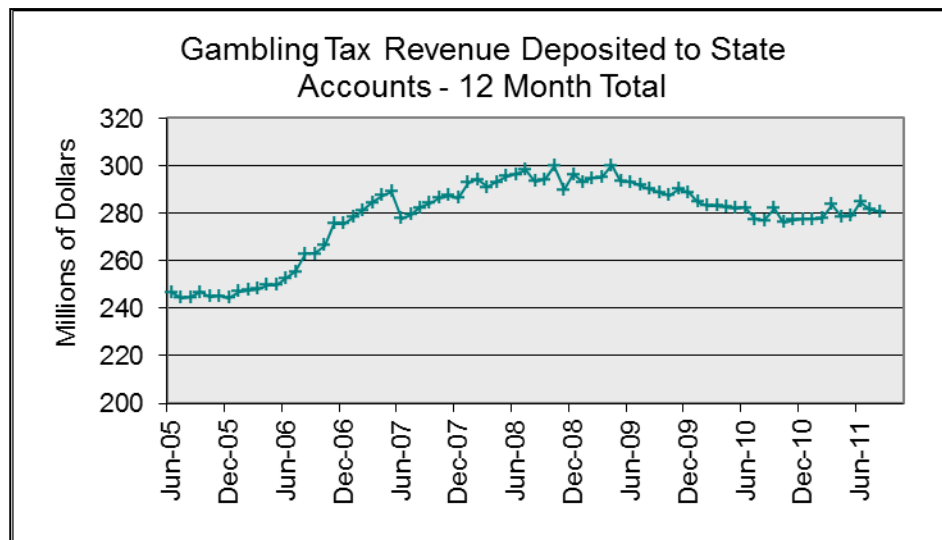
- Individual Income Tax (positive \$5.4 million, 2.0%) - Gross individual income tax deposits increased \$3.3 million while refunds decreased \$2.1 million, resulting in the modest net gain for the month. The withholding tax deposit component of gross revenue decreased slightly in August, but this was due entirely to a deposit timing event that reversed a July increase.
- Sales/Use Tax (negative \$2.1 million, - 0.7%)
  - Road Use Tax Fund use tax (fee for new registration) was unchanged in August.
  - Gross General Fund sales/use tax receipts increased \$3.1 million while regular tax refunds increased \$2.4 million and school infrastructure refunds increased \$2.8 million.
- Corporate Income Tax (positive \$18.1 million) - Gross corporate income tax receipts increased \$3.7 million while corporate refunds decreased \$14.4 million. The refund decrease was due to a tax credit refund timing issue that reversed a July refund increase.
- Fuel Tax (positive \$0.3 million, 0.8%) - A \$3.6 million increase in gross fuel tax deposits was offset by a \$3.3 million increase in fuel tax refunds.
- Cigarette and Tobacco Taxes (negative \$1.2 million, - 5.8%)
- Gambling Tax (negative \$1.0 million, - 4.5%)

## Year-over-Year Comparison – Net Tax Revenue

During the 12-month period ending August 2011, net revenue from all taxes deposited to State funds totaled \$6.534 billion, an increase of \$364.0 million (5.9%) compared to the prior 12 months. Major contributors to the year-over-year dollar and percentage changes include:

- Individual Income Tax (positive \$195.6 million, 7.3%) - Individual income tax continues to post strong year-over-year annual growth numbers. However, the growth rate has slowed in recent months. At \$2.861 billion, the level of net individual income tax revenue over the past 12 months is essentially the same as the level first reached in June 2008 and is 1.8% below the November 2008 peak.
- Sales/Use Tax (positive \$103.2 million, 4.8%) - While sales/use tax revenue increased 4.8% over the past year, receipts remain \$30.0 million (-1.7%) below the November 2008 peak level.
- Corporate Income Tax (positive \$57.2 million, 29.7%) - Although up significantly over the most recent 12 months, corporate tax revenue, net of refunds issued, is 30.5% below the pre-recession peak.
- Fuel Tax (positive \$5.1 million, 1.2%) - According to Department of Revenue fuel sales reports, over the most recent 12-month period, Iowa taxable gasoline/ethanol gallons sold increased 3.8% while taxable diesel sales increased 5.6%. Although up year-over-year, taxable diesel sales over the most recent 12-month period are 3.7% lower than the March 2008 peak diesel sales level and total taxable fuel gallons are only 1.4% above the pre-recession (August 2007) peak for all gallons sold.

- Gambling Tax (positive \$3.8 million, 1.4%) - According to Racing and Gaming Commission statistics, six of Iowa's 18 casino/track locations reported negative annual adjusted gross revenue (AGR) growth for the 12-month period ending August 2011. The combined AGR growth for the 18 facilities was positive 2.0% over the same 12-months last year, with the new Lyon County casino (opened June 2011) contributing significantly to the AGR growth. Adjusted gross receipts for the most recent 12 months totaled \$1.388 billion.



- Cigarette and Tobacco Tax (negative \$4.1, -1.8%)
- Insurance Premium Tax (negative \$3.4 million, - 3.5%)

### **Tax Spotlight – Corporate Income Tax**

Corporate income is taxed under the authority of Iowa Code Chapter 422, Division III. The tax is imposed on the net income of corporations doing business in Iowa or receiving income from property located in Iowa. Taxation of corporate income by the State of Iowa is based on the share of total company sales occurring within Iowa (single factor formula). Corporate income tax rates are applied as follows:

- Six percent on the first \$25,000 of net income
- Eight percent on the next \$75,000
- Ten percent on the next \$150,000
- Twelve percent on amounts above \$250,000

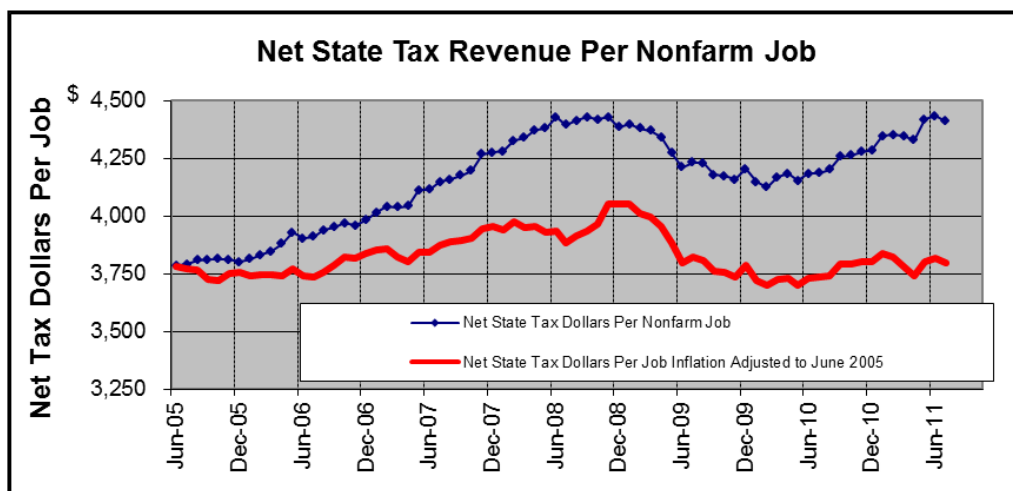
An alternative minimum tax may be imposed at an effective rate of 7.2% if it exceeds the corporation's regular tax liability. Iowa is similar to most states using the federal corporate taxable income of a corporation as the basis for Iowa corporate income tax. Iowa allows for the deduction of 50.0% of federal corporate income tax paid prior to calculating State corporate income tax liability.

The Iowa corporate income tax was first imposed in 1934 at a single rate of 2.0% with the passage of HF 1 (Income, Corporation, and Sales Tax Act). The rate remained at 2.0% until 1955 when it was increased to 3.0%, decreased to 2.0% in 1957, increased again to 3.0% in 1959, and increased to 4.0% in 1965. With the passage of HF 702 in 1967, the corporate income tax rate was changed from a single rate to varying rates at different income levels starting at 4.0% on the first \$25,000, 6.0% on the next \$75,000, and 8.0% for amounts above \$100,000. In 1971, HF 654 increased the rates 2.0 percentage points (6.0%, 8.0%, and 10.0%). The current corporate income tax rates and income levels were approved in HF 2171 (Taxation Act of 1982).

Corporate income tax returns are filed by the last day of the fourth month following the end of the corporation's tax year. Cooperatives (as defined by the Internal Revenue Code) are to file a return by the 15th of the ninth month after the end of the cooperative's tax year. Nonprofit corporation returns are due by the 15th of the fifth month after the end of the nonprofit corporation's tax year. Most corporations are required to make estimated tax payments quarterly. All corporate income tax revenues are deposited in the State General Fund.

### Tax Revenue and Employment

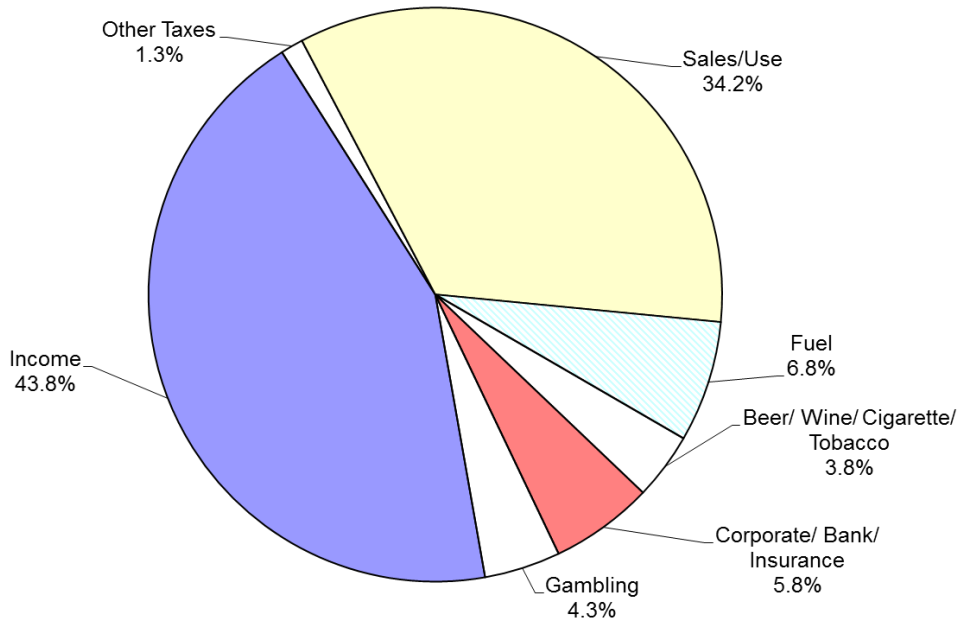
The average reading for Iowa nonfarm employment over the 12 months ending July 2011 is 1,476,400 and net State tax receipts over the same twelve months totaled \$6.512 billion, or \$4,411 per nonfarm job. This is \$626 (16.5%) higher than the per-job average for the 12 months ending July 2005. Over that same time period, inflation (CPI-U) increased 16.2%. Therefore, State tax revenue per job has slightly exceeded the rate of inflation since July 2005. The following chart provides a historical perspective of tax collections per nonfarm job (blue line) and inflation-adjusted tax collections per job (red line).



## Net State Tax Revenue - Twelve Months Ending August 2011

**Net Revenue = \$6.534 Billion**

Percentages may not add to 100% due to rounding

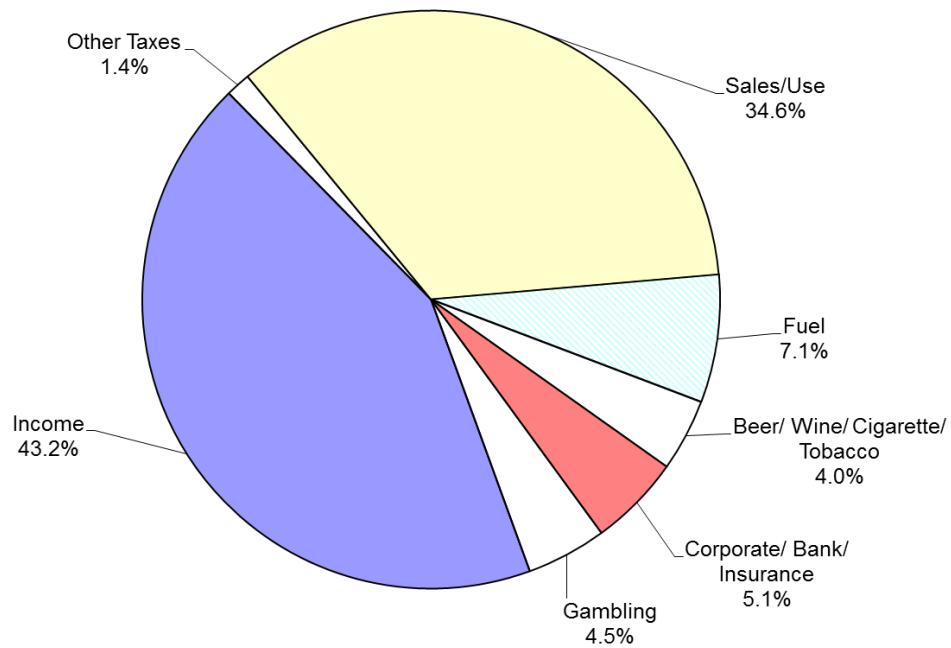


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## Net State Tax Revenue - Twelve Months Ending August 2010

**Net Revenue = \$6.170 Billion**

Percentages may not add to 100% due to rounding



## Net Tax Revenue Deposited to State Funds - Cash Basis

Dollars in millions - Columns and Rows may not add due to rounding

<b>Net Tax by Tax Type</b>	<b>Previous 12-Month Period Total</b>	<b>Most Recent 12-Month Period Total</b>	<b>12-Month \$ Change</b>	<b>12-Month % Change</b>	<b>Month of August 2010</b>	<b>Month of August 2011</b>	<b>August \$ Change</b>	<b>August % Change</b>
Banking	\$ 27.2	\$ 35.5	\$ 8.3	30.5%	\$ 0.1	\$ 0.6	\$ 0.5	500.0%
Beer & Wine	21.1	21.4	0.3	1.4%	1.9	1.8	- 0.1	-5.3%
Cigarette & Tobacco	228.4	224.3	- 4.1	-1.8%	20.7	19.5	- 1.2	-5.8%
Corporate Income	192.5	249.7	57.2	29.7%	- 13.0	5.1	18.1	--
Fuel	440.8	445.9	5.1	1.2%	38.2	38.5	0.3	0.8%
Gambling	276.9	280.7	3.8	1.4%	22.2	21.2	- 1.0	-4.5%
Individual Income	2,665.8	2,861.4	195.6	7.3%	274.2	279.6	5.4	2.0%
Inheritance	66.6	64.5	- 2.1	-3.2%	6.0	7.0	1.0	16.7%
Insurance	97.8	94.4	- 3.4	-3.5%	47.7	45.6	- 2.1	-4.4%
Other Taxes	5.3	5.6	0.3	5.7%	- 0.7	1.5	2.2	--
Real Estate Transfer	13.7	13.5	- 0.2	-1.5%	1.1	1.2	0.1	9.1%
Sales/Use	2,133.5	2,236.7	103.2	4.8%	290.2	288.1	- 2.1	-0.7%
<b>Total Net Taxes</b>	<b>\$ 6,169.6</b>	<b>\$ 6,533.6</b>	<b>\$ 364.0</b>	<b>5.9%</b>	<b>\$ 688.6</b>	<b>\$ 709.7</b>	<b>\$ 21.1</b>	<b>3.1%</b>
<b>Gross Tax &amp; Refunds</b>								
Gross Tax	\$ 7,451.0	\$ 7,799.8	\$ 348.8	4.7%	\$ 762.8	\$ 776.3	\$ 13.5	1.8%
Tax Refunds	\$ - 1,281.5	\$ - 1,266.3	\$ 15.2	-1.2%	\$ - 74.2	\$ - 66.6	\$ 7.6	-10.2%
<b>Net Tax Receipts by Fund</b>								
State General Fund (GF)	\$ 5,208.6	\$ 5,533.6	\$ 325.0	6.2%	\$ 604.3	\$ 604.4	\$ 0.1	0.0%
Road Use Tax Fund	\$ 701.3	\$ 731.9	\$ 30.6	4.4%	\$ 61.4	\$ 62.6	\$ 1.2	2.0%
Non-GF Gambling	\$ 241.7	\$ 212.7	\$ - 29.0	-12.0%	\$ 22.0	\$ 21.0	\$ - 1.0	-4.5%
Other State Funds	\$ 17.9	\$ 20.7	\$ 2.8	15.6%	\$ 1.0	\$ 2.2	\$ 1.2	120.0%
<b>Local Option Taxes *</b>	<b>\$ 781.9</b>	<b>\$ 819.5</b>	<b>\$ 37.6</b>	<b>4.8%</b>	<b>\$ 65.6</b>	<b>\$ 70.7</b>	<b>\$ 5.1</b>	<b>7.8%</b>

\* Sales, income, and hotel/motel. Distributed to local governments - not included in numbers above.

Numbers are rounded to the nearest \$0.1 million. Percentages are calculated after rounding.

## Tax Categories Used in Table

**Franchise (Bank) Tax:** Taxes on banks are deposited in the State General Fund. State credit union tax is included on this line also.

**Beer & Liquor Tax:** Taxes on beer, liquor, and wine are deposited in the State General Fund, the Liquor Control Fund, and a small amount is deposited in a Department of Economic Development fund for wine promotion.

**Cigarette & Tobacco Tax:** Prior to July 1, 2011, all cigarette and tobacco products tax revenue was deposited to the State General Fund. Beginning FY 2012, the first \$106.0 million of revenue from cigarette and tobacco taxes is deposited to the Health Care Trust Fund and the remainder is deposited to the State General Fund.

**Corporate Income Tax:** All corporate income tax is deposited in the State General Fund.

**Motor Vehicle Fuel Tax:** All motor vehicle fuel tax is deposited in one of two road use funds, with the exception of tax revenue from the sale of aviation and marine fuels.

**Gambling Tax:** Gambling tax is deposited in several State funds, including \$66.0 million per year to the State General Fund. Other funds receiving deposits of gambling tax revenue over the last 24 months include the School Infrastructure Fund, the Rebuild Iowa Infrastructure Fund, the Gambler's Assistance Fund, the County Endowment Fund, the Vision Iowa Fund, and the Revenue Bonds Debt Service Fund.

**Individual Income Tax:** Most individual income tax revenue is deposited in the State General Fund. A total of \$4.0 million per year is deposited in the Workforce Development Fund. An annual \$2.6 million diversion to the Child Daycare Fund ended in FY 2009. In addition, several economic development programs are financed by individual income tax withholding. In those instances, the employer does not remit the tax withheld from employees and it is never deposited in a State fund. That revenue is not included here.

**Inheritance Tax:** All inheritance tax is deposited in the State General Fund.

**Insurance Premium Tax:** All insurance premium tax is deposited in the State General Fund.

**Other Taxes:** Other taxes include brucellosis eradication property tax (deposited in a Department of Agriculture and Land Stewardship fund), drug stamp tax (State General Fund), utility replacement property tax (State General Fund), and car rental tax (Road Use Tax Fund). Other taxes also include a suspense account used to hold tax deposits prior to determining the correct tax type for the money and tax revenue transferred by the Department of Revenue to separate accounts to fund tax collection activities (tax gap and Department operations).

**Real Estate Transfer Tax:** Real estate transfer tax is collected by counties. Counties retain 17.25% and remit the remainder to the State. The State deposits 90.0% in the State General Fund, 5.0% in the Housing Trust Fund, and 5.0% in the Shelter Assistance Fund. The distribution of real estate transfer tax revenue changed in FY 2010, when the State General Fund percentage began a decline to 65.0% by FY 2015.

**Sales/Use Tax:** General sales/use tax is deposited in the State General Fund, while most vehicle use tax is deposited in the Road Use Tax Fund. Beginning FY 2009, the vehicle use tax is referred to as a fee in the Iowa Code. To allow continuity of data, the revenue from the fee is reflected in this document as tax revenue. Also beginning FY 2009, the School Infrastructure Local Option (SILO) sales tax was converted to a statewide 1.0% sales/use tax and the revenue from that statewide tax is transferred out of the State General Fund monthly through a refund appropriation. To allow for continuity of data, the refund transfers are subtracted from State revenue as part of the net sales/use tax calculation.

**Local Option Taxes:** Local option taxes are presented at the bottom of the table and are not included in the numbers above. Prior to FY 2009, local option taxes included the SILO tax, Local Option Sales Tax (LOST) for local government finance, Local Option Income Surcharge for schools, and hotel/motel tax. Beginning FY 2009, the SILO tax was converted to a 1.0% statewide tax and the SILO was eliminated. To allow for continuity of data, the transfers from the State General Fund as a result of the 1.0% statewide tax are included in the local option tax amount.

## Report Database

The database for this report is the State accounting system. If transactions are incorrectly coded in the system as tax revenue or tax refunds, the numbers presented here will be impacted.